This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section (see "Overview," "Results of Operations," "Liquidity and Capital Resources" and "Other Matters"). Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements and changing prices and market conditions. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Overview

Market-related Factors. The Company's operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree on the volume and mix of all products sold and on KACC's hedging strategies. Primary aluminum prices have historically been subject to significant cyclical price fluctuations. See Notes 1 and 13 of Notes to Consolidated Financial Statements for a discussion of KACC's hedging activities.

Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the transportation, distribution, and packaging markets. Such changes in demand can directly affect the Company's earnings by impacting the overall volume and mix of such products sold. To the extent that these end-use markets weaken, demand can also diminish for what the Company sometimes refers to as the "upstream" products: alumina and primary aluminum.

During 2000, the Average Midwest United States transaction price ("AMT price") per pound of primary aluminum was $.75 per pound. During 1999, the AMT price declined to a low of approximately $.57 per pound in February 1999 and then began a steady increase ending 1999 at $.79 per pound. During 1998, the AMT price experienced a steady decline during the year, beginning the year in the $.70 to $.75 range and ending the year in the low $.60 range. At January 31, 2001, the AMT price was approximately $.81 per pound.

Liquidity/Cash Resources. KACC has significant near-term debt maturities. KACC's ability to make payments on and refinance its debt depends on its ability to generate cash in the future. In addition to being impacted by power sales and normal operating items, the Company's and KACC's near-term liquidity and cash flows will also be affected by the Gramercy incident, net payments for asbestos-related liabilities and possible proceeds from asset dispositions. See "Liquidity and Capital Resources - *Financing Activities and Liquidity*" for a discussion of these matters.

Incident at Gramercy Facility. In July 1999, KACC's Gramercy, Louisiana alumina refinery was extensively damaged by an explosion in the digestion area of the plant. Construction on the damaged part of the facility began during the first quarter of 2000. Initial production at the plant commenced during the middle of December 2000. The plant is expected to increase production progressively to approximately 75% of its newly rated estimated annual capacity of 1,250,000 tons by the end of March 2001. At February 28, 2001, the plant was operating at 70% of capacity. Based on current estimates, construction at the facility is expected to be completed during the third quarter of 2001.

Through February 28, 2001, KACC had recorded $289.3 million of estimated insurance recoveries related to the Gramercy incident and had collected $262.6 million of such amounts. An additional $7.0 million is expected in March 2001. The remaining balance of approximately $20.0 million and any additional amounts possibly due to KACC will likely not be recovered until KACC and the insurers resolve certain outstanding issues. KACC and the insurers are currently negotiating an arbitration agreement as a means of resolving their differences. The Company anticipates that the remaining issues will not be resolved until late 2001 or early 2002. KACC and the Company continue to believe that a minimum of approximately $290.0 million of insurance recoveries are probable, that additional amounts are owed to KACC by the insurers, and that the likelihood of any refund by KACC of amounts previously received from the insurers is remote.

See Note 2 of Notes to Consolidated Financial Statements for a full discussion regarding the incident at the Gramercy facility.

Labor Matters. As previously reported, prior to the settlement of the labor dispute, KACC was operating five of its U.S. facilities with salaried employees and other employees as a result of the September 1998 strike by the United Steelworkers of America ("USWA") and the subsequent "lockout" by KACC in January 1999. The labor dispute was settled in September 2000. In September 2000, the Company recorded a one-time pre-tax labor settlement charge of $38.5 million to reflect the incremental, non-recurring impacts of the labor settlement, including severance and other contractual obligations for non-returning workers. See Note 5 of Notes to Consolidated Financial Statements for additional discussions on the labor settlement.

Although the USWA dispute has been settled and the workers have returned to the facilities, two allegations of unfair labor practices ("ULPs") in connection with the USWA strike and subsequent lock-out by KACC remain to be settled. The Company believes that the remaining charges made against KACC by the USWA are without merit. See Note 12 of Notes to Consolidated Financial Statements for additional discussion on the ULP charges.

Strategic Initiatives. KACC's strategy is to improve its financial results by: increasing the competitiveness of its existing plants; continuing its cost reduction initiatives; adding assets to businesses it expects to grow; pursuing divestitures of its non-core businesses; and strengthening its financial position by divesting of part or all of its interests in certain operating assets.

In addition to working to improve the performance of the Company's existing assets, the Company has devoted significant efforts analyzing its existing asset portfolio. The Company intends to focus its efforts and capital in sectors of the industry that are considered most attractive, and in which the Company believes it is well positioned to capture value. During 2000, KACC sold certain non-operating properties, its Micromill assets and technology and its Pleasanton, California, office complex and purchased the assets of a drawn tube aluminum fabricating operation. The dispositions were part of the Company's initiative to monetize non-strategic or underperforming assets. The acquisition was part of the Company's continued focus on growing its Engineered products operations.

KACC is considering the possible sale of part or all of its interests in certain operating assets. The contemplated transactions are in various stages of development. KACC expects that at least one operating asset will be sold. KACC has multiple transactions under way. It is unlikely, however, that it would consummate all of the transactions under consideration. Further, there can be no assurance as to the likelihood, timing, or terms of such sales. The consummation of any such sales would be dependent upon a number of factors, such as negotiation of definitive documentation, due-diligence investigations, certain lender approvals and/or anti-trust clearances. The Company would expect to use the proceeds from any such sales for debt reduction, capital spending or some combination thereof.

Another area of emphasis has been a continuing focus on managing the Company's legacy liabilities. The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs and is actively pursuing recoveries in this regard. For the period from inception through December 31, 2000, the Company has paid approximately $220.5 million for asbestos-related settlements and associated defense costs and has received partial insurance reimbursements during this same period totaling $131.3 million. The timing and amount of future recoveries of asbestos-related claims from insurance carriers remain a major priority of the Company, but will depend on the pace of claims review and processing by such carriers and the resolution of any disputes regarding coverage under the insurance policies.

Additional portfolio analysis and initiatives are continuing.

Pacific Northwest Power Sales and Operating Level. In response to the unprecedented high market prices for power in the Pacific Northwest, the Company temporarily curtailed the primary aluminum production at the Tacoma and Mead, Washington, smelters during the second half of 2000 and sold a portion of the power that it had under contract through September 30, 2001. As a result of the curtailments, KACC avoided the need to purchase power on a variable market price basis and will receive cash proceeds sufficient to more than offset the cash impact of the potline curtailments over the period for which the power was sold. KACC has made additional power sales in 2001.

During October 2000, KACC signed a new power contract with the Bonneville Power Administration ("BPA") under which the BPA will provide KACC's operations in the State of Washington with power during the period October 2001 through September 2006. The contract will provide sufficient power to operate KACC's Trentwood facility as well as approximately 40% of the combined capacity of KACC's Mead and Tacoma aluminum smelting operations. Power costs under the new contract are expected to exceed the cost of power under KACC's current BPA contract by between 20% to 60% and, perhaps, by as much as 100% in certain periods. There are other terms of the new BPA contract which are also less favorable than the current BPA contract. KACC does not have any remarketing rights under the new BPA contract.

See Note 7 of Notes to Consolidated Financial Statements for additional information on the power sales and the new BPA contract.

Results of Operations

Summary. The Company reported net income of $16.8 million, or $.21 of basic income per common share, for 2000 compared to a net loss of $54.1 million, or $.68 of basic loss per common share, for 1999 and net income of $.6 million, or $.01 of basic income per common share, for 1998. However, results for 2000, 1999 and 1998 included material non-recurring gains and losses as summarized below:

	Year Ended December 31,		
	2000	1999	1998
As reported, income (loss) per common share	$ .21	$ (.68)	$ .01
Less material non-recurring (gains) losses:			
Labor settlement charge in 2000; strike-related costs in 1998	.30	-	.50
Asbestos-related charges	.33	.44	.11
Impairment loss - U.S. smelters in 2000; Micromill in 1999 and 1998	.25	.16	.38
Net gains from power sales	(1.22)	-	-
Operating profit foregone as a result of power sales	.20	-	-
Gains - real estate transactions in 2000; AKW L.P. interests in 1999	(.30)	(.42)	-
Other non-recurring operating charges	.21	-	-
Gramercy-related items:			
Gain on involuntary conversion	-	(.71)	-
Incremental maintenance spending	.09	-	-
Charge for insurance deductibles	-	.04	-
LIFO inventory charge	.05	-	-
Mark-to-market (gains) losses	(.08)	.27	-
	$ .04	$ (.90)	$ 1.00

Net sales in 2000 totaled $2,169.8 million compared to $2,083.6 million in 1999 and $2,302.4 million in 1998.

2000 as Compared to 1999

Bauxite and Alumina. Third party net sales of alumina were up 12% in 2000 as compared to 1999 as a 19% increase in third party average realized price was partially offset by an 8% decrease in third party shipments. The increase in average realized price was because the sales prices for alumina under the Company's third-party alumina sales contracts are linked to primary aluminum prices and primary aluminum prices increased year over year. The decrease in year-over-year shipments resulted primarily from differences in the timing of shipments and, to a lesser extent, the net effect of the Gramercy incident, after considering the 267,000 tons of alumina purchased by KACC in 2000 from third parties to fulfill third party sales contracts.

Intersegment net sales for 2000 increased 15% as compared to 1999. The increase was primarily due to a 16% increase in the intersegment average realized price resulting from increases in primary aluminum prices from period to period as intersegment transfers are made on the basis of primary aluminum market prices on a lagged basis of one month. Intersegment shipments were essentially flat. The favorable impact on intersegment alumina shipments of operating more potlines at the Company's smelters during the first half of 2000 as compared to the same period in 1999 was offset by the unfavorable impact of the potline curtailments at the Company's Washington smelters in the last half of 2000. Intersegment shipments for 2000 included approximately 55,000 tons of alumina purchased by KACC from third-parties and transferred to the Primary aluminum business unit.

Segment operating income (before non-recurring items) for 2000 was up significantly as compared to 1999 primarily as a result of the factors discussed above. Segment operating income for 2000 excludes non-recurring labor settlement charges of $2.1 million and three Gramercy-related items; a $7.0 million non-cash LIFO inventory charge, incremental maintenance spending of $11.5 million and an $.8 million non-cash restructuring charge. Segment operating income for 1999 excludes the segment's allocated share of the expense of insurance deductibles related to the Gramercy incident of $4.0 million.

See Note 2 of Notes to Consolidated Financial Statements for additional discussion of the effect of the Gramercy incident on the Bauxite and Alumina business unit's operations.

Primary Aluminum. Third party net sales of primary aluminum were up 30% for 2000 as compared to 1999 as a result of a 17% increase in third party shipments and a 12% increase in third party averaged realized prices. The increase in shipments was primarily due to the favorable impact of the increased operating rate at the Company's 90%-owned Volta Aluminium Company Limited ("Valco") throughout 2000 and the Washington smelters (during the first six months of 2000). These shipment increases were offset, in part, by curtailments of the potlines at the Washington smelters during the second half of 2000, net of approximately 206,500 tons of primary aluminum purchased from third-parties to meet third-party and internal commitments. The increase in the average realized prices reflects the 14% increase in primary aluminum market prices. Intersegment net sales for 2000 were up modestly when compared to 1999. A 16% increase in intersegment average realized prices was offset by a 13% decrease in intersegment shipments. The increase in the intersegment average realized price was due to higher market prices for primary aluminum as intersegment transfers are made on the basis of market prices. The decrease in shipments was primarily due to the potline curtailments at the Washington smelters, the reduced requirements of the Flat-rolled products segment due to the can body stock exit and the reduced requirements of the Engineered products segment due to the softening of the ground transportation and distribution markets.

Segment operating income (before non-recurring items) for 2000 was up significantly from 1999. The primary reason for the increase was the improvements in average realized prices and net shipments discussed above. However, segment operating income for 2000 was adversely affected by increased alumina prices, higher electric power costs and reduced profitability resulting from metal purchased and resold to the Flat-rolled products and Engineered products business units. The increase in alumina costs is the result of higher primary aluminum prices in 2000 because transfers of alumina from KACC's alumina business unit are made on a metal-linked basis. Power costs have generally increased, even after excluding the higher than normal power costs experienced by the Company in the Pacific Northwest. As previously reported, new agreements entered into in both Ghana and Wales provide for increased power stability but at increased costs. The reduced profitability on sales to the Flat-rolled products and Engineered products segments is due to the lack of a profit margin on metal that was purchased and resold at cost to the segments versus the profit margin that would have existed had the metal been produced.

Segment operating income for 2000, discussed above, excludes non-recurring net power sales gains of $159.5 million. Segment operating income for 2000 also excludes a non-cash smelter impairment charge of $33.0 million, the segment's share of the non-recurring labor settlement charge of $15.9 million and costs related to staff reduction initiatives of $3.1 million. Operating income in 1999 included costs of approximately $12.8 million associated with preparing and restarting potlines at Valco and the Washington smelters.

Flat-Rolled Products. Net sales of flat-rolled products decreased by 12% in 2000 as compared to 1999 as a 26% decrease in shipments was only partially offset by a 14% increase in average realized prices. The decrease in shipments was primarily due to reduced shipments of can body stock as a part of the Company's planned exit from this product line. Offsetting the reduced can body stock shipments was a modest year over year improvement in shipments of heat-treat products. The increase in average realized prices primarily reflects the change in product mix (resulting from the can body stock exit) as well as the pass through to customers of increased market prices for primary aluminum.

Segment operating income (before non-recurring items) for 2000 was essentially flat when compared to 1999 as the increase in price and volume for heat-treat products offset the impacts of the can body stock exit. Segment operating income for 2000, discussed above, excludes the segment's share of the non-recurring labor settlement charge of $18.2 million. Segment operating income also excludes a $7.5 million non-cash LIFO inventory charge and $5.1 million of non-cash impairment charges associated with KACC's exit from the can body stock product line.

Results for 2000 for the Flat-rolled products segment were also adversely affected late in the year by the Washington smelter curtailments as the business unit no longer had a supply of hot metal. While the impact of this change was modest in 2000, the business unit will be adversely affected by this situation in 2001. The amount of the impact will depend on the cost of acquiring the necessary metal units and the energy costs incurred to melt the purchased metal.

Engineered Products. Net sales of engineered products for 2000 were essentially flat as compared to 1999 as a 5% increase in average realized prices was offset by a 4% decrease in product shipments. The increase in average realized prices reflects increased prices for soft alloy extrusions, offset, in part, by a shift in product mix. The decrease in product shipments in 2000 over 1999 reflects a substantial weakening in ground transportation and distribution markets in the last half of 2000.

The changes in segment operating income (before non-recurring items) for 2000 as compared to 1999 were primarily attributable to increased energy costs. Segment operating income for 2000 excludes a non-recurring non-cash impairment charge associated with product line exit of $5.6 million and labor settlement charges of $2.3 million. Segment operating income for 1999 included equity in earnings of $2.5 million from the Company's 50% interest in AKW L.P., which was sold in April 1999.

Commodities Marketing. Commodities marketing includes the results of KACC's aluminum hedging activities. Its hedging activities include: (1) metal hedging on behalf of the Bauxite and alumina and Primary aluminum business segments with third-party brokers (other than mark-to-market charges on certain non-qualifying hedges which are reflected in Other income (expense) - see Notes 1 and 13 of Notes to Consolidated Financial Statements) and (2) internal hedging with Flat-rolled products and Engineered products business segments so as to eliminate the commodity price risk on the underlying aluminum whenever these segments enter into a fixed price contract with a third-party customer.

Net sales for this segment represent net settlements with third-party brokers for derivative positions. Operating income represents the combined effect of such net settlements, any net premium costs associated with the purchase or sale of options, as well as net results of internal hedging activities with KACC's fabricated products segments. The decrease in net sales as well as a decrease in operating income in 2000 as compared to 1999 results from the 2000 hedging positions having lower ceilings than the positions in 1999. This is primarily the result of the timing of when the hedging position activities were completed.

Eliminations. Eliminations of intersegment profit vary from period to period depending on fluctuations in market prices as well as the amount and timing of the affected segments' production and sales.

Corporate and Other. Corporate operating expenses (excluding non-recurring items) represent corporate general and administrative expenses which are not allocated to the Company's business segments. Corporate operating results for 2000 exclude costs related to staff reduction and efficiency initiatives of $5.5 million. Corporate operating results for 1999 exclude the expense of insurance deductibles related to the Gramercy incident allocated to the Corporate segment of $1.0 million.

1999 as Compared to 1998

Bauxite and Alumina. Third party net sales were down 11% in 1999 as compared to 1998 as a result of a 4% decline in third party average realized prices and a 7% decrease in third party alumina shipments. The decline in the average realized prices in 1999 as compared to 1998 was primarily attributable to lower realizations under KACC's primary aluminum linked alumina sales contracts caused by lower primary aluminum market prices. The decrease in year-over-year shipments was primarily the net effect of the Gramercy incident after considering the 264,000 tons of alumina purchased by KACC from third parties to fulfill third party sales contracts.

Intersegment net sales for 1999 declined 5% as compared to 1998. The decline was primarily due to a 6% decline in the intersegment average realized price, offset in part by a 1% increase in intersegment shipments, resulting from potline restarts at Valco and at the Company's Washington smelters. Intersegment net sales include approximately 131,000 tons of alumina purchased from third-parties and transferred to the primary aluminum business unit.

Segment operating income (before non-recurring items) for 1999 was down as compared to 1998 primarily as a result of the price and volume factors discussed above. Segment operating income for 1999 was favorably impacted by the fact that depreciation on the Gramercy facility was suspended in July 1999.

Segment operating income for 1999, discussed above, excludes the segment's allocated share of the expense of insurance deductibles related to the Gramercy incident of $4.0 million. Segment operating income for 1998 excludes the adverse impact of approximately $11.0 million of incremental strike-related costs.

Primary Aluminum. Third party net sales of primary aluminum were up 11% as compared to 1998 as a result of a 12% increase in third party shipments offset by a 1% decrease in the average realized third party sales prices. The increase in shipments was primarily due to the favorable impact of Valco operating three potlines in 1999 as compared to one potline in 1998.

Intersegment net sales for 1999 were up 3% as compared to 1998. Intersegment shipments increased 5% due to the timing of shipments to the Company's fabricated business units while intersegment average realized prices were down 2%.

Segment operating income (before non-recurring items) for 1999 was down compared to 1998. The most significant component of this decline was the reduction in the average realized prices discussed above. Results for 1999 were also adversely impacted by costs of approximately $12.8 million associated with preparing and restarting potlines at Valco and the Washington smelters. The favorable impact of Valco operating at a higher rate in 1999 (as compared to 1998) was substantially offset by the fact that Valco earned mitigating compensation of approximately $29.0 million in 1998 for two of its curtailed potlines.

Segment operating income for 1998, discussed above, excludes the adverse impact of approximately $29.0 million of incremental strike-related costs.

Flat-Rolled Products. Net sales of flat-rolled products for 1999 declined by 19% compared to 1998 as a result of a 13% decline in average realized prices and an 8% decline in product shipments. The decline in average realized prices resulted primarily from a shift in product mix (from aerospace products, which have a higher price and operating margin, to other products) and a reduction in prices resulting from reduced demand for heat treat products. The reduction in shipments was primarily due to reduced demand in 1999 for aerospace heat-treat products offset, in small part, by increased shipments of general engineered products.

The decline in 1999 prices and shipments as compared to 1998 was responsible for the decline in segment operating income for 1999. Segment operating income for 1998 excluded the adverse impact of approximately $16.0 million of incremental strike-related costs.

Engineered Products. Net sales of engineered products for 1999 decreased 7% compared to 1998 primarily due to an 8% decline in average realized prices. Product shipments were essentially flat. The decline in the average sales realized prices in 1999 was attributable to a change in product mix (higher ground transportation products offset by lower aerospace shipments). While there was a strong increase in 1999 in the demand for ground transportation products it was offset by a reduced demand for aerospace products.

Segment operating income for 1999 decreased compared to 1998 as a result of the factors discussed above as well as the reduced equity in earnings from AKW (which partnership interests were sold in April 1999). Segment operating income for 1998 excluded the adverse impact of approximately $4.0 million of incremental strike-related costs.

Commodities Marketing. Net sales for this segment represent net settlements with third-party brokers for derivative positions. Operating income represents the combined effect of such net settlements, any net premium costs associated with the purchase or sale of options, as well as net results of internal hedging activities with KACC's fabricated products segments. The decrease in net sales as well as a decrease in operating income in 1999 as compared to 1998 results primarily from the 1999 hedging positions having lower floors than the positions in 1998. This is primarily the result of the timing of when the hedging position activities were completed.

Eliminations. Eliminations of intersegment profits vary from period to period depending on fluctuations in market prices as well as the amount and timing of the affected segments' production and sales.

Corporate and Other. Corporate operating expenses (before non-recurring items) represent corporate general and administrative expenses which are not allocated to the Company's business segments. Corporate operating expenses for 1999 were lower than 1998 primarily due to reduced incentive compensation expense resulting from the decline in operating results. Corporate operating results for 1999 exclude the expense of insurance deductibles related to the Gramercy incident allocated to the Corporate segment of $1.0 million.

Liquidity and Capital Resources

See Note 8 of Notes to Consolidated Financial Statements for a listing of the Company's indebtedness and information concerning certain restrictive debt covenants. See Note 12 of Notes to Consolidated Financial Statements for a discussion of the material commitments and contingencies affecting the Company's liquidity and capital resources.

Operating Activities. In 2000, operating activities provided $84.6 million of cash. This amount compares with 1999 when operating activities used cash of $89.3 million and 1998 when operating activities provided cash of $170.7 million. The increase in cash flows from operating activities between 2000 and 1999 resulted primarily from the impact of the improved 2000 operating results, driven primarily by the net proceeds received from power sales of approximately $119.8 million, and a decline in inventories of approximately $125.8 million, offset in part by an increase in receivables of approximately $168.8 million. The decrease in inventories was primarily due to improved inventory management and the exit from the can body product line at the Flat-rolled products business unit. The increase in receivables was primarily due to power sale proceeds that were received in the first quarter of 2001 and Gramercy-related items. The decrease in cash flows from operating activities between 1999 and 1998 was due primarily to the impact of 1999 results, excluding non-cash charges, and an increased investment in working capital (excluding cash).

Investing Activities. Total consolidated capital expenditures were $296.5, $68.4 and $77.6 million in 2000, 1999 and 1998, respectively (of which $5.4, $4.8 and $7.2 million were funded by the minority partners in certain foreign joint ventures). The $296.5 million capital expenditures in 2000 included $239.1 million spent with respect to rebuilding the Gramercy facility and $13.3 million spent with respect to the purchase of the non-working capital

assets of the Chandler, Arizona drawn tube aluminum fabricating operation. The remaining capital expenditures in 2000 and the capital expenditures in 1999 and 1998 were made primarily to improve production efficiency, reduce operating costs and expand capacity at existing facilities. Total consolidated capital expenditures, excluding the expenditures in 2001 to finish rebuilding the Gramercy, Louisiana facility, are currently expected to be between $60.0 and $80.0 million per year in each of 2001 and 2002 (of which approximately 15% is expected to be funded by the Company's minority partners in certain foreign joint ventures). See " - *Financing Activities and Liquidity*" below for a discussion of Gramercy related capital spending. Management continues to evaluate numerous projects, all of which would require substantial capital, both in the United States and overseas. The level of capital expenditures may be adjusted from time to time depending on the Company's price outlook for primary aluminum and other products, KACC's ability to assure future cash flows through hedging or other means, the Company's financial position and other factors.

Financing Activities and Liquidity: *Short-Term*. KACC uses its credit agreement, as amended (the "Credit Agreement") to provide short-term liquidity requirements and for letters of credit to support operations. During 2000, month-end borrowing amounts outstanding under the Credit Agreement have been as high as approximately $53.4 million, which occurred in August 2000, primarily as a result of costs incurred and capital spending related to the Gramercy rebuild, net of insurance reimbursements. The average amount of borrowings outstanding under the Credit Agreement during 2000 was approximately $25.6 million. The average interest rate on loans outstanding under the Credit Agreement during 2000, was approximately 10.3% per annum. Outstanding letters of credit monthly balances have primarily been in the range of $55.0 to $65.0 million. As of February 28, 2001, there were $94.0 million of borrowings outstanding under the Credit Agreement and remaining availability of approximately $120.0 million. However, proceeds of approximately $130.0 million related to 2001 power sales are expected to be received at or near March 30, 2001, and an additional $130.0 million of power proceeds will be received periodically through October 2001 with respect to other power sales made during the first quarter of 2001.

The Credit Agreement expires in August 2001. It is the Company's and KACC's intention to extend or replace the Credit Agreement prior to its expiration. However, in order for the Credit Agreement to be extended, on a short-term basis, beyond August 2001, KACC will have to have a plan to mitigate the $225.0 million of 9⅞% Senior Notes, due February 2002 (the "9⅞% Senior Notes"). For the Credit Agreement to be extended past February 2003, both the 9⅞% Senior Notes and the $400.0 million of 12¾% Senior Subordinated Notes, due February 2003, will have to be retired and/or refinanced. As of February 28, 2001, KACC had received approval from the Credit Agreement lenders to purchase up to $50.0 million of the 9⅞% Senior Notes. As of February 28, 2001, KACC had purchased approximately $1.0 million of 9⅞% Senior Notes.

In addition to being impacted by power sales and normal operating variables, the Company's and KACC's near-term liquidity will also, as more fully discussed below, be affected by, among other things, three significant items: the Gramercy incident, the amount of net payments for asbestos liabilities and possible proceeds from asset dispositions.

KACC will continue to incur business interruption costs and capital spending until all construction activity at the Gramercy facility is completed and full production is restored. As more fully discussed in Note 2 of Notes to Consolidated Financial Statements, unless KACC is successful in its arbitration process against its insurers, it will have to fund all of the remaining Gramercy-related capital expenditures as well as any incremental costs or losses incurred at Gramercy. It is believed that such amounts will total between $100.0 and $150.0 million depending on, among other things, the ultimate cost of the rebuild, the elapsed time of the rebuild and the amount of start-up costs/inefficiencies. The Company now believes that the total cost of the rebuild will be between $300.0 and $325.0 million. As previously announced, however, the plant will include several additional enhancements from its original design including the installation of additional safety features in the digestion unit and enhancements to increase the annual production capacity of the plant from 1,125,000 tons to 1,250,000 tons on an extremely favorable cost-per-ton basis.

During 2000, KACC paid $99.5 million of asbestos-related settlement and defense costs and received insurance reimbursement of $62.8 million for asbestos-related matters. KACC's 2001 and 2002 cash payments, prior to insurance recoveries, for asbestos-related costs are estimated to be between $110.0 million and $135.0 million per year. The Company believes that KACC will recover a substantial portion of asbestos payments from insurance. However, insurance reimbursements have historically lagged KACC's payments. Delays in receiving future insurance repayments would have an adverse impact on KACC's liquidity. During 2000, KACC filed suit against a group of its insurers, after negotiations with certain of the insurers regarding an agreement covering both reimbursement amounts and the timing of reimbursement payments were unsuccessful. The litigation is intended, among other things, to: (1) ensure that the insurers provide KACC with timely and appropriate reimbursement payments for asbestos-related settlements and related legal costs incurred; and (2) to resolve certain issues between the parties with respect to how specific provisions of the applicable insurance policies are to be applied. Given the significance of expected asbestos-related payments in 2001 and 2002 based on settlement agreements in place at December 31, 2000, the receipt of timely and appropriate reimbursements from such insurers is critical to KACC's liquidity. The court is not expected to try the case until late 2001 or 2002. KACC is continuing to receive cash payments from the insurers.

KACC is considering the possible sale of part or all of its interests in certain operating assets. The contemplated transactions are in various stages of development. KACC expects that at least one operating asset will be sold. KACC has multiple transactions under way. It is unlikely, however, that it will consummate all of the transactions under consideration. Further, there can be no assurance as to the likelihood, timing or terms of such sales. The Company would expect to use the proceeds from any such sales for debt reduction, capital spending or a combination thereof.

Management believes that the Company's existing cash resources, together with cash flows from operations, power sales and anticipated asset dispositions, as well as borrowings under the Credit Agreement, will be sufficient to satisfy its working capital and capital expenditure requirements for the next year. However, no assurance can be given that existing cash sources will be sufficient to meet the Company's short-term liquidity requirements or that additional sources of cash will not be required.

Long-Term. As of December 31, 2000, the Company's total consolidated indebtedness was $989.4 million, including $30.4 million outstanding under the Credit Agreement, which amount is included in current liabilities. KACC's ability to make payments on and to refinance its debt on a long-term basis depends on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond KACC's control. With respect to long-term liquidity, management believes that operating cash flow, together with the ability to obtain both short and long-term financing, should provide sufficient funds to meet KACC's and the Company's working capital, financing and capital expenditure requirements. However, no assurance can be given that KACC will be able to refinance its debt on acceptable terms.

Capital Structure. MAXXAM Inc. ("MAXXAM") and one of its wholly owned subsidiaries collectively own approximately 63% of the Company's Common Stock, with the remaining approximately 37% of the Company's Common Stock being publicly held. Certain of the shares of the Company's Common Stock beneficially owned by MAXXAM are subject to certain pledge agreements. See Note 11 of Notes to Consolidated Financial Statements for a further description of the pledge agreements.

The Company has an effective "shelf" registration statement covering the offering from time to time of up to $150.0 million of equity securities. Any such offering will only be made by means of a prospectus. The Company also has an effective "shelf" registration statement covering the offering of up to 10,000,000 shares of the Company's Common Stock that are owned by MAXXAM. The Company will not receive any of the net proceeds from any transaction initiated by MAXXAM pursuant to this registration statement.

Commitments and Contingencies. The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals of $46.1 million at December 31, 2000. However, the Company believes that it is reasonably possible that changes in various factors could cause costs associated with these environmental matters to exceed current accruals by amounts that could range, in the aggregate, up to an estimated $35.0 million.

KACC is also a defendant in a number of asbestos-related lawsuits that generally relate to products KACC has not sold for more than 20 years. Based on past experience and reasonably anticipated future activity, the Company has established a $492.4 million accrual at December 31, 2000, for estimated asbestos-related costs for claims filed and estimated to be filed through 2010, before consideration of insurance recoveries. However, the Company believes that substantial recoveries from insurance carriers are probable. The Company reached this conclusion based on prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies and the advice of outside counsel with respect to applicable insurance coverage law relating to the terms and conditions of these policies. Accordingly, the Company has recorded an estimated aggregate insurance recovery of $406.3 million (determined on the same basis as the asbestos-related cost accrual) at December 31, 2000. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements and disputes with certain carriers exist. The timing and amount of future recoveries from these carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies that may arise.

In connection with the USWA strike and subsequent lock-out by KACC which was settled in September 2000, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board ("NLRB") by the USWA. KACC believes that all such allegations are without merit. Twenty-two of twenty-four allegations of ULPs previously brought against it by the USWA have been dismissed. A trial before an administrative law judge for the two remaining allegations commenced in November 2000 and is continuing. The Company is unable to estimate when the trial will be completed. Any outcome from the trial would be subject to additional appeals by the general counsel of the NLRB, the USWA or KACC. This process could take months or years. If these proceedings eventually resulted in a final ruling against KACC with respect to either allegation, it could be obligated to provide back pay to USWA members at the five plants and such amount could be significant.

While uncertainties are inherent in the final outcome of these matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that ultimately may be received, management currently believes that the resolution of these uncertainties and the incurrence of related costs, net of any related insurance recoveries, should not have a material adverse effect on the Company's consolidated financial position or liquidity. However, amounts paid, if any, in satisfaction of these matters could be significant to the results of the period in which they are recorded. See Note 12 of Notes to Consolidated Financial Statements for a more detailed discussion of these contingencies and the factors affecting management's beliefs.

Other Matters

Income Tax Matters. The Company's net deferred income tax assets as of December 31, 2000, were $464.2 million, net of valuation allowances of $122.3 million. The Company believes a long-term view of profitability is appropriate and has concluded that these net deferred income tax assets will more likely than not be realized. See Note 9 of Notes to Consolidated Financial Statements for a discussion of these and other income tax matters.

Quantitative and Qualitative Disclosures about Market Risk

This section contains forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in these forward-looking statements. The following disclosures are before consideration of any impacts resulting from the application of Statement of Financial Accounting Standards ("SFAS") No. 133 beginning January 1, 2001. See Note 1 of Notes to Consolidated Financial Statements for a discussion of the impacts of SFAS No. 133.

The Company's operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold. As discussed more fully in Notes 1 and 13 of Notes to Consolidated Financial Statements, KACC utilizes hedging transactions to lock-in a specified price or range of prices for certain products which it sells or consumes in its production process and to mitigate KACC's exposure to changes in foreign currency exchange rates. The following sets forth the impact on future earnings of adverse market changes related to KACC's hedging positions with respect to commodity, foreign exchange and energy contracts described more fully in Note 13 of Notes to Consolidated Financial Statements.

Alumina and Primary Aluminum. Alumina and primary aluminum production in excess of internal requirements is sold in domestic and international markets, exposing the Company to commodity price opportunities and risks. KACC's hedging transactions are intended to provide price risk management in respect of the net exposure of earnings resulting from (i) anticipated sales of alumina, primary aluminum and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. On average, before consideration of hedging activities, any fixed price contracts with fabricated aluminum products customers, variations in production and shipment levels, and timing issues related to price changes, the Company estimates that each $.01 increase (decrease) in the market price per price-equivalent pound of primary aluminum increases (decreases) the Company's annual pre-tax earnings by approximately $10.0 - $15.0 million, based on recent fluctuations in operating levels.

Based on the average December 2000 London Metal Exchange ("LME") cash price for primary aluminum of approximately $.71 per pound, the Company estimates that there would be no material net aggregate pre-tax impact on operating income from its hedging positions and fixed price customer contracts during the period 2001 through 2003. The Company estimates that a hypothetical $.10 increase from the above stated December 2000 price would result in a net aggregate pre-tax decrease in operating income of approximately $75.0 million being realized during the period 2001 through 2003 from KACC's hedging positions and fixed price customer contracts. Conversely, the Company estimates that a hypothetical $.10 decrease from the above stated December 2000 price level would result in an aggregate pre-tax increase in operating income of approximately $130.0 million being realized during the period 2001 through 2003 from KACC's hedging positions and fixed price customer contracts. Both of the foregoing hypothetical amounts are versus what the Company's results would have been without the derivative commodity contracts and fixed price customer contracts discussed above. It should be noted, however, that, since the hedging positions and fixed price customer contracts lock-in a specified price or range of prices, increases or decreases in earnings attributable to KACC's hedging positions or fixed price customer contracts are significantly offset by a decrease or increase in the proceeds to be realized on the underlying physical transactions.

As stated in Note 13 of Notes to the Consolidated Financial Statements, KACC has certain hedging positions which do not qualify for treatment as a " hedge" under current accounting guidelines and thus must be marked-to-market each period. Fluctuations in forward market prices for primary aluminum would likely result in additional earnings volatility as a result of these positions. The Company estimates that a hypothetical $.10 change in spot market prices from the December 31, 2000, LME cash price of $.71 per pound would, depending on the shape of the forward curve, result in additional aggregate mark-to-market impacts of between $10.0-$30.0 million during any period through 2003.

In addition to having an impact on the Company's earnings, a hypothetical $.10-per-pound change in primary aluminum prices would also impact the Company's cash flows and liquidity through changes in possible margin advance requirements. At December 31, 2000, KACC had made margin advances of $5.1 million and had posted letters of credit totaling $5.0 million in lieu of paying margin advances. Increases in primary aluminum prices subsequent to December 31, 2000, could result in KACC having to make additional margin advances or post additional letters of credit and such amounts could be significant. If primary aluminum prices increased by $.10 per pound (from the year-end 2000 price) by March 31, 2001 and the forward curve were as described above, it is estimated that KACC could be required to make additional margin advances in the range of $50.0 to $100.0 million.

Foreign Currency. KACC enters into forward exchange contracts to hedge material cash commitments for foreign currencies. KACC's primary foreign exchange exposure is related to KACC's Australian Dollar (A$) commitments in respect of activities associated with its 28.3%-owned affiliate, Queensland Alumina Limited. The Company estimates that, before consideration of any hedging activities, a US $0.01 increase (decrease) in the value of the A$ results in an approximate $2 million (decrease) increase in the Company's annual pre-tax operating income.

KACC's foreign currency hedges would have no net aggregate pre-tax impact on the Company's operating results for the period 2001 through 2005 at the December 31, 2000 US$ to A$ exchange rate of $.55. The Company estimates that a hypothetical 10% reduction in the A$ exchange rate would result in the Company recognizing a net aggregate pre-tax cost of approximately $10.0 million for the period 2001 through 2005 from KACC's foreign currency hedging positions. Conversely, the Company estimates that a hypothetical 10% increase in the A$ exchange rate (from $.55) would result in the Company realizing a net pre-tax aggregate benefit of approximately $20.0 million. These hypothetical impacts are versus what the Company's results would have been without the Company's derivative foreign currency contracts. It should be noted, however, that, since the hedging positions lock-in specified rates, increases or decreases in earnings attributable to currency hedging instruments would be offset by a corresponding decrease or increase in the value of the hedged commitments.

Energy. KACC is exposed to energy price risk from fluctuating prices for fuel oil, diesel oil and natural gas consumed in the production process. The Company estimates that each $1.00 change in natural gas prices (per mcf) impacts the Company's pre-tax operating results by approximately $20.0 million. Further, the Company estimates that each $1.00 change in fuel oil prices (per barrel) impacts the Company's pre-tax operating results by approximately $3.0 million.

KACC from time to time in the ordinary course of business enters into hedging transactions with major suppliers of energy and energy related financial instruments. As of December 31, 2000, KACC held option and swap contracts hedging a substantial majority of its first quarter 2001 natural gas requirements. The Company expects to realize a pre-tax benefit of approximately $10.0 million in the first quarter of 2001 associated with these hedging positions. However, it should be noted that these benefits will be offset by the higher than normal gas prices on the physical gas deliveries received during the first quarter of 2001.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors of Kaiser Aluminum Corporation:

We have audited the accompanying consolidated balance sheets of Kaiser Aluminum Corporation (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related statements of consolidated income (loss), stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kaiser Aluminum Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Houston, Texas
March 27, 2001

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(In millions of dollars, except share amounts)	December 31, 2000	December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 23.4	$ 21.2
Receivables:		
Trade, less allowance for doubtful receivables of $5.8 and $5.9	188.7	154.1
Other	241.1	106.9
Inventories	396.2	546.1
Prepaid expenses and other current assets	162.7	145.6
Total current assets	1,012.1	973.9
Investments in and advances to unconsolidated affiliates	77.8	96.9
Property, plant, and equipment - net	1,176.1	1,053.7
Deferred income taxes	454.2	440.0
Other assets	622.9	634.3
Total	$ 3,343.1	$ 3,198.8
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 236.8	$ 231.7
Accrued interest	37.5	37.7
Accrued salaries, wages, and related expenses	110.3	62.1
Accrued postretirement medical benefit obligation - current portion	58.0	51.5
Other accrued liabilities	288.9	168.8
Payable to affiliates	78.3	85.8
Long-term debt - current portion	31.6	.3
Total current liabilities	841.4	637.9
Long-term liabilities	703.7	727.1
Accrued postretirement medical benefit obligation	656.9	678.3
Long-term debt	957.8	972.5
Minority interests	101.1	117.7
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.01, authorized 125,000,000 shares; issued and outstanding 79,599,557 and 79,405,333 shares	.8	.8
Additional capital	537.5	536.8
Accumulated deficit	(454.3)	(471.1)
Accumulated other comprehensive income (loss)	(1.8)	(1.2)
Total stockholders' equity	82.2	65.3
Total	$ 3,343.1	$ 3,198.8

The accompanying notes to consolidated financial statements are an integral part of these statements.

Kaiser Aluminum Corporation and Subsidiary Companies

STATEMENTS OF CONSOLIDATED INCOME (LOSS)

(In millions of dollars, except share amounts)	Year Ended December 31, 2000	1999	1998
Net sales	$ 2,169.8	$ 2,083.6	$ 2,302.4
Costs and expenses:			
Cost of products sold	1,891.4	1,893.5	1,892.2
Depreciation and amortization	76.9	89.5	99.1
Selling, administrative, research and development, and general	104.1	105.4	115.5
Labor settlement charge	38.5	-	-
Other non-recurring operating items, net	(80.4)	24.1	105.0
Total costs and expenses	2,030.5	2,112.5	2,211.8
Operating income (loss)	139.3	(28.9)	90.6
Other income (expense):			
Interest expense	(109.6)	(110.1)	(110.0)
Gain on involuntary conversion at Gramercy facility	-	85.0	-
Other - net	(4.3)	(35.9)	3.5
Income (loss) before income taxes and minority interests	25.4	(89.9)	(15.9)
(Provision) benefit for income taxes	(11.6)	32.7	16.4
Minority interests	3.0	3.1	.1
Net income (loss)	$ 16.8	$ (54.1)	$ .6
Earnings (loss) per share:			
Basic/Diluted	$ .21	$ (.68)	$ .01
Weighted average shares outstanding (000):			
Basic	79,520	79,336	79,115
Diluted	79,523	79,336	79,156

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In millions of dollars)	Common Stock	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1997	$ .8	$ 533.8	$ (417.6)	$ -	$ 117.0
Net income/Comprehensive income	-	-	.6	-	.6
Stock options exercised	-	.1	-	-	.1
Incentive plan accretion	-	1.5	-	-	1.5
Balance, December 31, 1998	.8	535.4	(417.0)	-	119.2
Net income (loss)	-	-	(54.1)	-	(54.1)
Minimum pension liability adjustment, net of tax	-	-	-	(1.2)	(1.2)
Comprehensive income (loss)	-	-	-	-	(55.3)
Stock options exercised	-	.1	-	-	.1
Incentive plan accretion	-	1.3	-	-	1.3
Balance, December 31, 1999	.8	536.8	(471.1)	(1.2)	65.3
Net income	-	-	16.8	-	16.8
Minimum pension liability adjustment, net of tax	-	-	-	(.6)	(.6)
Comprehensive income	-	-	-	-	16.2
Incentive plan accretion	-	.7	-	-	.7
Balance, December 31, 2000	$ .8	$ 537.5	$ (454.3)	$ (1.8)	$ 82.2

The accompanying notes to consolidated financial statements are an integral part of these statements.